

Title	<Articles>The Excess Funds Problem of the Savings Groups in Laos: Case Study of a Village in Vientiane Municipality
Author(s)	FUJITA, Koichi
Citation	Southeast Asian Studies (2015), 3(4): 135-155
Issue Date	2015-03
URL	<a href="http://hdl.handle.net/2433/199236">http://hdl.handle.net/2433/199236</a>
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Type	Journal Article
Textversion	publisher

# The Excess Funds Problem of the Savings Groups in Laos: Case Study of a Village in Vientiane Municipality

Fujita Koichi\*

There is a tendency that the success of some of the village-level savings groups in Laos inevitably causes an excess funds problem, because the activity of a saving group is confined to a small village territory. Given the lack of efficient and reasonable system for coordinating between funds-surplus and funds-deficit savings groups, the excess funds problem of funds-surplus savings groups leads to a stagnation of such groups, whereas other funds-deficit groups continue to suffer from the fund shortage. The paper, based on a case study of a village in Vientiane Municipality since 2003 until 2012, analyzes how various stakeholders responded to such an excess funds problem with an apparent failure in the study village and alerts the policy-makers in Laos to make necessary measures, since the excess funds problem is also providing a good opportunity to establish a broader and integrated institutional financial system in rural Laos.

**Keywords:** village-level savings group, excess funds problem, Laos

## I Introduction

The Village Savings and Credit Group (hereinafter, SG) in Laos is basically a closed, village-level financial group. Membership is confined to villagers, and savings mobilization and credit extension are limited to the members. Roughly 70% of profits from credit operations are distributed as dividends once a year to members in proportion to their savings amount. In general, at first, demand for credit exceeds savings and because external institutions generally provide no, or very little, seed funding, so an SG inevitably rations credit.<sup>1)</sup> Later, as the group develops and savings accumulate to a certain level, savings begin to exceed credit demand. Lowering the interest rate, which is a common adjustment measure, has an apparent inhibitory effect on the development of SGs as a reduced interest

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\* 藤田幸一, Center for Southeast Asian Studies, Kyoto University, 46 Shimoadachi-cho, Yoshida Sakyo-ku, Kyoto 606-8501, Japan  
e-mail: kfujita@cseas.kyoto-u.ac.jp

1) The case of the study village's SG gave priority to members with urgent needs and small loan amounts.

rate discourages savings mobilization, although a substantial savings surplus exists among village households. Such SGs suffer from an excess funds problem. We also note the existence of many SGs that suffer from shortage of funds in a prolonged period.

To avoid such a scenario, SGs require a system to coordinate the gap between demand and supply among funds-surplus and funds-deficit SGs. When SGs as a whole have excess funds, the surplus money should be transferred to external financial markets. Through such a developmental process, SGs can be integrated into the broader financial system, thus contributing to the development of the nation-wide financial markets. The agricultural cooperatives in Japan, for instance, established the three-tier cooperative system—village-level, prefecture-level, and nation-level—to transfer excess funds from village-level cooperatives to a nation-level cooperative bank (see the first paper in this special issue by Ohno) and thereby supported the formation of the country's more efficient and integrated financial market.

In Laos, some SGs, especially those in Vientiane Municipality, began facing an excess funds problem several years after establishment. The present study examines the responses of the various stakeholders—committee members and advisers of an SG, villagers, NGOs (Foundation for Integrated Agricultural and Environmental Management [FIAM] and Community Organizations Development Institute [CODI]),<sup>2)</sup> and the Lao Women's Union (LWU)—to this problem. This study's major objective is to investigate the excess funds problem, focusing on the aforementioned stakeholders' responses through a detailed case study of a village in Pakngum District, Vientiane Municipality. By analyzing the process of the development of SG, this study also identifies the SG's impact on the village financial market and economy.

The paper proceeds as follows. In section 2, we describe the study village on the basis of a household survey of 75 sample households, followed by a discussion of the SG's development and impact on the village economy in section 3. Section 4 presents the process that caused the excess funds problem and the methods by which the SG committee and other stakeholders attempted to manage it. Section 5 presents the conclusions.

## II Profile of the Study Village

FIAM and CODI began organizing SGs in Vientiane Municipality (hereinafter, Vientiane) in 1997. By December 2003, a total of 217 SGs were formed in Laos, covering nine

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2) FIAM is a Thai NGO. CODI is a Thai semi-governmental organization. The system of governing SGs is almost the same for the two institutions. See Ohno and Arimoto (2005) for SGs under FIAM.

**Table 1** The Savings Groups in Laos as of December 2003

District	No. of Villages	No. of Villages with Savings Group	Share of Villages	No. of Members	Average Number of Members per Group	Total Savings (1,000 kip)	Average Savings per Group (1,000 kip)	Average Savings per Member (1,000 kip)	NGO
Pakngum	53	53	100.0%	3,871	73	1,194,700	22,542	309	CODI
Naxaythong	56	15	26.8%	1,430	95	194,592	12,973	136	CODI
Xaythany	103	92	89.3%	11,289	123	3,797,347	41,276	336	FIAM
Sangthong	37	14	37.8%	903	65	167,214	11,944	185	FIAM
Xaysetha	52	4	7.7%	499	125	135,333	33,833	271	FIAM
Chanthabuly	37	0	0%	0	—	0	—	—	—
Sikhottabong	60	0	0%	0	—	0	—	—	—
Sisuttanak	40	0	0%	0	—	0	—	—	—
Hadxaifong	60	0	0%	0	—	0	—	—	—
Total Vientiane Municipality	498	178	35.7%	17,992	101	5,489,186	30,838	305	
Thakhek	141	24	17.0%	1,870	78	217,214	9,051	116	FIAM
Hinboon	166	2	1.2%	81	41	31,837	15,919	393	FIAM
Viengkham	18	7	38.9%	597	85	32,291	4,613	54	FIAM
Thoulakhom	74	6	8.1%	755	126	122,598	20,433	162	FIAM
Grand Total	897	217	24.2%	21,295	98	5,893,126	27,157	277	

Source: LWU and CODI (undated).

Note: CODI: Community Organizations Development Institute; FIAM: Foundation for Integrated Agricultural and Environmental Management

districts (*muang*) of which five were in Vientiane (Table 1). A total of 178 SGs existed in Vientiane, concentrating in the Xaythany District (92 villages out of 103) and Pakngum District (53 villages out of 53). Also notable was the amount of savings: as of December 2003, 217 groups had accumulated 5.89 billion kip (averaging 27.2 million kip per group),<sup>3)</sup> of which 145 groups (roughly two-thirds the groups) in Xaythany and Pakngum Districts had accumulated 4.99 billion kip (84.7%).

The study village (*ban*), Don Neua, is one of the 53 villages in Pakngum District. Supported by CODI, an SG was established in September 2000. Don Neua is located along the Mekong River, which forms the border between Laos and Thailand. From central Vientiane city, vehicles must travel roughly 55 km to east along national highway no. 13 and roughly 15 km southwest along a dirt road (See Fig. 1 of Chansathith, Ohno, Fujita and Mieno, the fifth paper in this special issue). The village has a long history of around 400 years. In March 2003, when the author conducted the first preliminary survey, the village contained 147 households and 752 people. *Lao* was the predominant ethnic group.<sup>4)</sup>

3) The exchange rate in 2003 was roughly US\$1  $\div$  10,000 kip.

4) There was another village, Don Tay ("*tay*" means south while "*neua*" means north in Lao language), which was separated from Don Neua village during the 1960s, although the two villages' residential area was continuous. In March 2003, Don Tay had 71 households and 345 people, including some migrants from Thailand.

At the time of the survey in 2003, the economy of Don Neua was mainly based on crop cultivation, livestock raising, and brewing of rice alcohol locally called *jees*. The agricultural land was largely classified into paddy field and garden land, with areas of 223 ha and 63.4 ha, respectively. Garden land spread along the bank of the Mekong River, where farmers grew banana, mango, tamarind, teak, sugarcane, and other products as cash crops. Roughly 20–30% of the paddy field was irrigated with water pumped from the Mekong River,<sup>5)</sup> where dry season rice was grown besides monsoon season rice. The average rice yield was 3.0 ton/ha and 4.0–4.5 ton/ha for the monsoon and dry seasons, respectively. Tenancy was developed to some extent in the paddy field, especially in the dry season.<sup>6)</sup>

Villagers began brewing *jees* roughly 20 years before the 2003 survey, and 36 households (roughly 25%) were engaged in this cottage industry in 2003. Village statistics reported 184 heads of cattle, nine buffaloes, 80 pigs, and roughly 2,000 chickens. Fisheries were unpopular in the Mekong River, and only a small-scale operation was observed for self-consumption. Many emigrants from the village worked in the USA and regularly sent money as remittances. Roughly one-third of the households received such regular support from family/relative members in the USA. The remittances were sent in cash (US dollars) in a letter, instead of utilizing banking networks.

A total of 75 households (51% of the total) were randomly selected for a questionnaire survey in July 2003. Table 2 shows population characteristics of the sampled households, which were categorized by landholding size of paddy field. Of the 75 households, 7 (9.3%) were landless non-farm households, which neither owned nor rented farmland (including garden land). The average age of heads of landless non-farm households was 32.4 years, far less than that of farm households (49.2 years on average).<sup>7)</sup> Among the farm households, it was observed that the larger the farm size, the older the household head.

Table 3 shows the distribution of farmland and other basic information for the sam-

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- 5) A pump was installed in the territory of Don Tay in 1984 by ODA from the Netherlands. Both Don Tay and Don Neua villagers used pumped water, covering roughly 227 ha of paddy field. In 2000, villagers established a water users association (WUA), the members of which paid a 150,000 kip/ha irrigation fee annually. The WUA assumed responsibility for managing the pump, including minor repairs. Ten groups of farmers under the WUA were responsible maintaining water channels. The WUA was reluctant to pay electricity charges to the government (for unknown reasons), and unpaid dues reached nearly 80 million kip in March 2003.
  - 6) Land rent was paid with a one-third share of production in the rainy season, whereas in the dry season tenant farmers paid a fixed amount of paddy (three bags per *rai*, equivalent to 0.63 ton/ha).
  - 7) The non-farm households were either new immigrants (five households; hereinafter, HHs) or households newly separated from parents (two HHs), engaged in wage labor (four HHs), *jees* brewing (two HHs), goldsmithing (one HH), and shop keeping (one HH).

**Table 2** Sampled Households from Don Neua Village

Land Ownership (ha)	No. of HHs	Average Age of HH Head	Population				Labor Forces				
			Male	Female	Total	Average Number per HH	Male	Female	Total	Average Number per HH	Labor Force Participation Rate (%)
Non-farm HHs	7	32.4	12	12	24	3.43	7	7	14	2.00	58.3
Farm HHs <sup>1)</sup>											
0–0.99	23	46.5	56	52	108	4.70	25	32	57	2.48	52.8
1.00–1.99	24	46.6	65	53	118	4.92	35	41	76	3.17	64.4
2.00–2.99	8	53.4	17	19	36	4.50	13	13	26	3.25	72.2
3.00–3.99	6	54.8	14	16	30	5.00	10	12	22	3.67	73.3
4.00–	6	56.7	12	17	29	4.83	11	11	22	3.67	75.9
Unknown	1	59.0	4	3	7	7.00	3	3	6	6.00	85.7
Total	75 <sup>2)</sup>	47.6	180	172	352	4.69	104	119	223	2.97	63.4

Source: Survey by author in 2003.

Notes: <sup>1)</sup> Farm size includes only lowland paddy fields.<sup>2)</sup> The total number of households in June 2003 was 147.**Table 3** Land and Other Selected Indicators for the Sampled Households

Land Ownership (ha)	No. of HHs	Land Owned (ha)				Rented-in Land (ha)	Operated Land (ha)		HHs Engaged in Brewing ( <i>Jees</i> )		HHs Received Remittance from US	
		Lowland	Per HH	Garden	Per HH	Lowland	Lowland	Per HH	No. of HHs	%	No. of HHs	%
Non-farm HHs	7	0	0	0	0	0	0	0	2	28.6	1	14.3
Farm HHs <sup>1)</sup>												
0–0.99	23	13.2	0.6	4.5	0.2	8.2	21.4	0.9	7	30.4	6	26.1
1.00–1.99	24	32.7	1.4	20.6	0.9	6.1	38.8	1.6	7	29.2	8	33.3
2.00–2.99	8	18.7	2.3	2.9	0.4	0.6	19.3	2.4	3	37.5	7	87.5
3.00–3.99	6	19.4	3.2	3.7	0.6	0.0	19.4	3.2	1	16.7	2	33.3
4.00–	6	40.5	6.8	9.0	1.5	0.0	40.5	6.8	2	33.3	1	16.7
Unknown	1	NA	NA	NA	NA	NA	NA	NA	0	0.0	0	0.0
Total	75	124.5	1.7	40.7	0.5	14.9	139.3	1.9	22	29.3	25	33.3

Source: Survey by author in 2003.

Note: <sup>1)</sup> Lowland paddy fields only.

pled households. The majority of farm households (47 out of 67) had less than 2 ha of paddy field, whereas 12 farm households owned more than 3 ha. More than 10% of paddy fields were rented out, mainly to land-poor households. The average land holding size of garden land was only 0.5 ha, but it was more equally distributed among the households. Twenty-nine percent (29.3%) of households were engaged in *jees* brewing (including yeast making). One-third of the households regularly received remittances from abroad. Table 4 shows that the average number of livestock holding per household was 3.1 cattle, 3.1 pigs, 10.5 ducks, and 16.8 chickens. Interestingly, small farmers had more cattle than large farmers.

The distribution of non-land production assets was skewed in favor of land-rich households (Table 5). Power tillers and irrigation pumps were widely diffused among

**Table 4** Livestock Held by Sampled Households

Land Ownership (ha)	No. of HHs	Cattle				Buffalo	Pig			Duck		Chicken		Goat	Others
		Cattle for Meat	Cattle for Other Purposes	Baby-cattle	Per HH (excl. babies)		Mother Pig	Piglet	Per HH (excl. piglets)	Number	Per HH	Number	Per HH		
Non-farm HHs	7	2	0	1	0.3	0	43	24	6.1	82	11.7	173	24.7	0	0
Farm HHs															
0–0.99	23	28	19	31	2.0	0	10	18	0.4	291	12.7	327	14.2	0	0
1.00–1.99	24	69	17	24	3.6	14	41	24	1.7	160	6.7	358	14.9	7	0
2.00–2.99	8	2	6	5	1.0	0	7	14	0.9	95	11.9	250	31.3	0	0
3.00–3.99	6	0	8	6	1.3	0	12	24	2.0	97	16.2	98	16.3	0	2
4.00–	6	6	4	8	1.7	0	2	11	0.3	66	11.0	44	7.3	0	0
Unknown	1	0	0	0	0	0	0	0	0	0	0	10	10.0	0	0
Total	75	107	54	75	2.1	14	115	115	1.5	791	10.5	1260	16.8	7	2

Source: Survey by author in 2003.

**Table 5** Assets Holding of Sampled Households

Land Ownership (ha)	No. of HHs	Per HH				
		Car	Power Tiller	Irrigation Pump	Motor Boat	Fishing Net
Non-farm HHs	7	0.29	0	0.29	0.14	0.29
Farm HHs						
0–0.99	23	0.04	0.22	0.61	0.13	0.78
1.00–1.99	24	0.13	0.58	0.71	0.29	1.54
2.00–2.99	8	0.13	0.88	1.00	0.38	1.50
3.00–3.99	6	0	0.50	0.67	0.17	2.17
4.00–	6	0.17	0.83	1.17	0.33	1.33
Unknown	1	0	0	0	0	0
Total	75	0.11	0.45	0.69	0.23	1.20

Source: Survey by author in 2003.

**Table 6** Consumer Durables of Sampled Households

Land Ownership (ha)	No. of HHs	Per HH								
		Fan	TV	Bicycle	Refrigerator	CD Player	Motorbike	Radio-cassette	Sewing Machine	Washing Machine
Non-farm HHs	7	1.86	1.14	0.71	0.86	0.57	0.29	0.29	0	0
Farm HHs										
0–0.99	23	2.83	0.87	1.04	0.78	0.39	0.39	0.17	0.04	0
1.00–1.99	24	2.54	1.04	0.96	0.92	0.67	0.50	0	0.21	0
2.00–2.99	8	4.50	1.25	1.13	0.88	0.75	0.88	0.50	0.25	0.13
3.00–3.99	6	2.67	1.17	0.67	0.83	0.67	0.33	0.50	0.17	0
4.00–	6	4.50	1.17	0.50	1.17	0.83	0.67	0.67	0	0.33
Unknown	1	0	1.00	2.00	0	1.00	0	0	0	0
Total	75	2.91	1.04	0.93	0.87	0.60	0.48	0.23	0.12	0.04

Source: Survey by author in 2003.

large farmers. The distribution of consumer durables (Table 6), however, had no clear relationship with landholding size, except for the smallest farm size class (0–0.99 ha). One household had, on average, three electric fans, one TV set, one bicycle, one refrigerator, 0.6 CD players, and 0.5 motor bikes. Sewing machines were diffused more widely among the land-poor households.

In sum, the study village had quite an egalitarian agrarian structure. Although disparity in the land holding size of paddy fields was quite large, it did not necessarily correspond to each household's economic status.

### III Development and Impact of the Savings Group

#### III-1 *Establishment and Development of the Savings Group*

Under the guidance of CODI and LWU, an SG started with 87 members on September 27, 2000. Initially, CODI provided four million kip (approximately US\$400) as seed money.<sup>8)</sup> Five village women were selected as committee members, and CODI provided them with four days of training. As Don Neua belonged to *khet* no. 5,<sup>9)</sup> the SG was supervised by the chairman of that *khet*-level SG.<sup>10)</sup>

At the time of our July 2003 survey, the minimum amount of monthly savings was 10,000 kip (approximately US\$1).<sup>11)</sup> Only female members could apply for a loan, with a ceiling of five times her savings amount at an interest rate of 4% per month.<sup>12)</sup> The loan period was basically four months but could be extended to six months. On the first day of each month, all the transactions were completed. In the morning, the committee received three kinds of money: regular savings, interest payments, and principal repayments. In the afternoon, the committee disbursed new loans for the previously approved applications.

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8) Two different institutions provided seed money. The initially disbursed 2.5 million kip had to be repaid in installments within 25 years with no interest, but they did not have to repay the next 1.5 million kip in a specific time, but they did have to pay interest of 1.5% per month. When compared to the group's accumulated savings (50 million kip in November 2002, 500 million kip in March 2005), the size of the seed money was not significant.

9) *Khet* was an administrative unit in Laos between district and village, but it had been abolished before our first survey in 2003. The management of the SGs, however, still utilized it.

10) Pakngum District is composed of six *khet*, and *khet* no. 5 contained eight villages, including Don Neua.

11) During the initial 10 months from October 2000 to July 2001, the minimum amount was 5,000 kip. Each SG could determine its regulations to a certain degree.

12) During the initial 10 months, the interest rate was 3% per month. However, because of the strong demand for credit, the interest rate was raised to 4%.



The net profit after deducting expenditures<sup>13)</sup> was distributed once a year (at the end of July in Don Neua) according to the following rule: 7% each to the reserves fund and the welfare fund, 12% for allowances to committee members, 2% for allowances to consultants (six men elected by the members),<sup>14)</sup> 2% to the *khet*-level SG chairman, and the remaining 70% to members as dividends. Given the small amount of expenditures, the dividend rate was slightly less than 2.8% per month (70% of 4% per month interest). The dividend rate of 2.8% per month (33.6% per year) was much higher than the bank interest rates shown in Fig. 1, giving the villagers incentives to save more in the SG.<sup>15)</sup>

Tables 7 and 8 summarize the development locus of the SG. As the tables report, the SG of the study village developed quite rapidly and smoothly. First, the number of members, which began with 87, increased to 168 (from 92 households) in July 2003. It jumped to 192 in August 2003<sup>16)</sup> and further increased rapidly, exceeding 300 in September 2004 and 400 in July 2005. Almost all the households participated in the SG. Although the number of households and population of the village also increased, on average two to three members of each household became the members of the SG.

Second, the savings amount exhibited accelerated growth, partly because the average monthly savings per member increased. They saved more than the minimum amount of 10,000 kip per month, whereas very few instances and only small amounts of withdrawal from savings occurred.<sup>17)</sup> The total amount of SG funds, therefore, increased rapidly despite the annual distribution of profit.<sup>18)</sup> It exceeded 50 million kip in November 2002, 100 million kip in June 2003, 200 million kip in March 2004, and 500 million kip in March 2005.<sup>19)</sup>

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13) The major expenditure items included furniture, stationery, meeting expenses (primarily food), travel cost, and donations to temples/festivals.

14) The committee members and the consultants were selected by vote for a one-year term, although re-election was allowed.

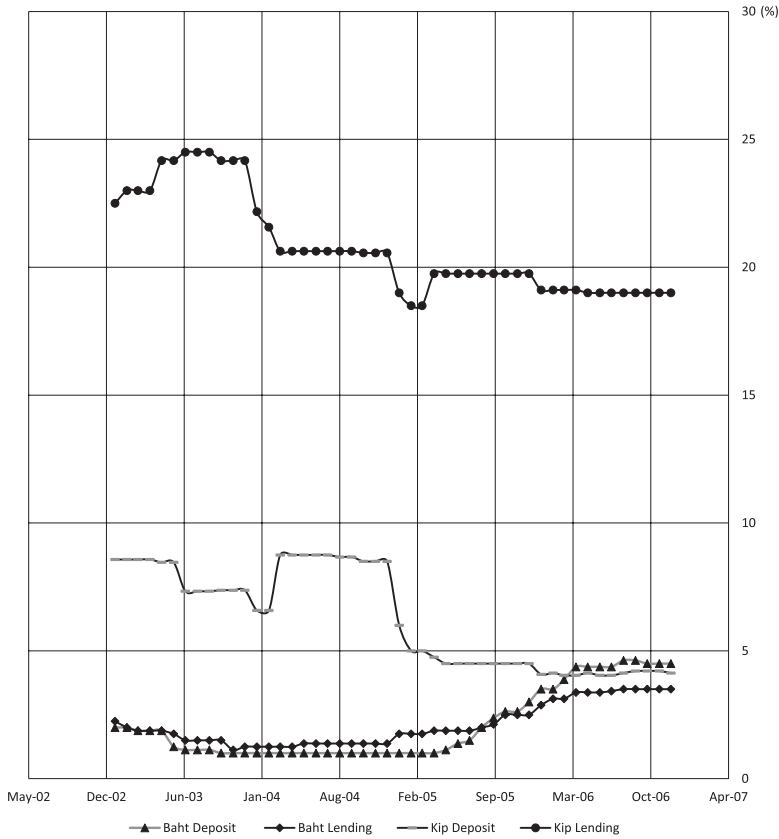
15) If we consider the high inflation rates in Laos as stated in footnote 19, the real bank saving interest rates were chronically negative, which also contributed to the increased deposits to the SG.

16) It seems that our intervention by conducting the survey encouraged greater villager participation in the SG, although we did not promote it.

17) The committee members stated that they strongly encouraged members not to withdraw savings even when they need it, and encouraged them to borrow from the SG.

18) As Table 7 reveals, members usually deposited considerable savings in the month following dividend distribution.

19) As the Laos inflation rate decreased substantially after 2001 (19.1% in 1995, 19.2% in 1996, 19.5% in 1997, 90.1% in 1998, 128.4% in 1999, 23.3% in 2000, 7.8% in 2001, 10.7% in 2002, 15.5% in 2003, 10.5% in 2004, 7.2% in 2005, 6.8% in 2006, 7.6% in 2008, 0.0% in 2009, 6.0% in 2010, 7.6% in 2011, and 5.1% in 2012), we can safely say that the amount of total funds of the SG increased sharply in real terms as well.



**Fig. 1** Interest Rate Structure in Laos

Sources: Kip: Bank of the Lao. <http://www.bol.gov.la/english/interrate1.html> (accessed Jan. 15, 2015)

Bhat: Bank of Thailand. <http://www.bot.or.th/English/Statistics/FinancialMarkets/InterestRate/Pages/StatInterestRate.aspx> (accessed Jan. 15, 2015)

Note: 12 months interest rate

Third, despite the relatively high lending interest rate (4% per month),<sup>20)</sup> members showed a strong demand for loans, leaving a very small amount of funds in the hands of the committee. Under such a chronic excess demand for loans, the committee had to ration credit, granting priority to urgently needy members and members with small loan amount applications. However, as the shortage of funds eased, the average loan size increased; it exceeded 0.5 million kip in March 2002 and 1 million kip in April 2003.

20) The real lending interest rates were also lower than 48% per annum if we consider the high inflation rates in Laos stated in footnote 19.

**Table 7** Development of the Savings Group in the Study Village

(1,000 kip)

			Regular Savings		Lending			Distribution of Dividend	Total Fund	Carrying Over Cash
			Total Amount	Per Member	No. of Borrowers	Total Amount	Per Loan			
2000	Oct	87	1,077	12.4	2	1,000	500		1,080	42
	Nov	102	985	9.7	4	1,000	250		2,090	10
	Dec	112	1,040	9.3	6	1,050	175		3,190	60
2001	Jan	118	1,147	9.7	7	2,000	286		4,430	105
	Feb	121	1,405	11.6	8	2,000	250		5,500	27
	Mar	129	1,206	9.3	7	2,300	329		6,850	27
	Apr	133	1,143	8.6	12	3,450	288		8,190	7
	May	137	1,435	10.5	12	3,800	317		9,850	0
	Jun	137	1,250	9.1	10	3,600	360		11,250	92
	Jul	131	1,455	11.1	15	5,100	340		12,850	98
	Aug	137	1,360	9.9	14	6,100	436		14,570	102
	Sep	125	1,885	15.1	26	6,300	242	205	14,590	200
	Oct	128	1,305	10.2	9	1,700	189		16,140	157
	Nov	128	1,310	10.2	11	4,600	418		17,770	183
	Dec	135	1,428	10.6	20	8,800	440		19,680	0
2002	Jan	135	1,405	10.4	14	4,000	286		21,630	349
	Feb	135	1,320	9.8	16	5,400	338		23,560	422
	Mar	140	1,533	10.9	22	11,200	509		25,770	483
	Apr	142	2,730	19.2	26	8,900	342		29,280	343
	May	143	6,783	47.4	21	14,500	690		37,000	255
	Jun	143	1,775	12.4	22	13,100	595		39,020	531
	Jul	143	2,000	14.0	18	9,400	522		42,330	377
	Aug	137	5,548	40.5	25	14,300	572	710	38,590	469
	Sep	144	3,077	21.4	25	15,200	608		42,960	585
	Oct	147	2,503	17.0	26	13,700	527		46,930	481
	Nov	147	2,640	18.0	9	7,050	783		51,180	363
	Dec	150	3,002	20.0	18	14,800	822		56,950	436
2003	Jan	151	3,296	21.8	27	22,100	819		62,100	676
	Feb	153	3,552	23.2	32	18,300	572		67,820	58
	Mar	155	4,880	31.5	17	16,300	959		75,130	310
	Apr	154	3,426	22.2	24	23,500	979		81,260	180
	May	161	4,612	28.6	28	31,000	1,107		88,800	814
	Jun	162	10,625	65.6	28	29,825	1,065		102,630	1,202
	Jul	168	5,175	30.8	16	16,700	1,044	2,731	78,570	6,340
	Aug	192	25,559	133.1	25	31,300	1,252		104,130	2,699
	Sep	200	9,618	48.1	38	45,250	1,191		117,550	211
	Oct	206	6,308	30.6	30	33,890	1,130		128,450	535
	Nov	206	6,083	29.5	18	24,400	1,356		138,450	2,739
	Dec	207	7,447	36.0	9	6,060	673		151,040	12,267

**Table 7** Development of the Savings Group in the Study Village (continued) (1,000 kip)

			Regular Savings		Lending			Distribution of Dividend	Total Fund	Carrying Over Cash
			Total Amount	Per Member	No. of Borrowers	Total Amount	Per Loan			
2004	Jan	210	13,461	64.1	17	33,650	1,979	8,689	131,910	1,720
	Feb	212	13,832	65.2	35	38,000	1,086		145,740	14,620
	Mar	216	60,653	280.8	53	82,760	1,562		206,390	5,940
	Apr	219	15,000	68.5	34	32,360	952		221,390	7,770
	May	219	27,570	125.9	8	11,580	1,448		248,960	36,670
	Jun	222	8,670	39.1	19	42,280	2,225		255,160	36,520
	Jul	222	8,440	38.0	18	16,300	906		263,600	73,340
	Aug	281	75,730	269.5		271,160			294,080	38,110
	Sep	317	49,640	156.6		85,590			342,710	15,530
	Oct	322	19,960	62.0		21,360			354,460	33,870
	Nov	328	62,280	189.9		64,260			414,750	68,530
	Dec		13,800			60,520			428,550	55,910
2005	Jan		36,980			55,290		20,732	465,200	73,510
	Feb	364	26,050	71.6		138,170			489,960	41,030
	Mar	382	15,730	41.2		38,020			505,690	63,320
	Apr	395	13,780	34.9		46,400			519,460	75,650
	May	399	11,870	29.7		12,460			531,340	136,730
	Jun		14,630			18,780			545,970	177,580
	Jul	400	14,450	36.1		360			560,420	320,190
	Aug		42,460			540,950			533,170	21,380
	Sep-Dec									
2006										
2007	Jan-Jun							21,375		
	Jul								665,470	296,240
	Aug		76,040			226,900			729,400	48,350
	Sep		20,560			180,950			730,900	37,020
	Oct		18,600			35,500			746,230	55,890
	Nov		25,870			39,280			753,910	81,310
	Dec		13,630			33,300			765,540	99,940
2008	Jan	649	21,400	33.0		32,470		25,101	780,090	107,880
	Feb		13,110			162,900			790,400	35,100
	Mar		11,280			8,850			779,000	53,880
	Apr		10,660			44,780			787,520	90,710
	May		11,040			4,340			796,940	141,500
	Jun		9,870			51,460			805,610	147,610
	Jul		6,410			106,740			759,950	379,840
	Aug		115,350			2,900			751,380	143,930
	Sep		33,500			119,690			779,480	84,110

Source: Prepared by author based on documents collected from the savings group office.

Table 8 Credit from the Savings Group

				Distribution by Size of Loan (1,000 kip)							Purpose of Usage									
				-250	250-500	500-1,000	1,000-2,000	2,000-3,000	3,000-5,000	5,000-10,000	10,000-	Rice Cultivation	Production	Livestock	Agri. Machines	Trade and Ice-making Business	Education Expenses	House Construction	Consumption	Repayment
2000	Oct	2	1,000	500	1	1						2								
	Nov	4	1,000	250	2	2						1	1							
	Dec	6	1,050	175	6							4	1				2			4
2001	Jan	7	2,000	286	3	3	1					4	2	1						2
	Feb	8	2,000	250	6	2						4			1					1
	Mar	7	2,300	329	3	3	1					1	1			1				2
	Apr	10	3,300	330	3	6	1					4			2					2
	May	12	3,800	317	6	3	3					3			1	1				2
	Jun	10	3,600	360	2	5	3					3			2					5
	Jul	15	5,100	340	3	11	1					5			3					3
	Aug	14	6,100	436	5	3	5	1				2	2	1	3	3	4			2
	Sep	25	6,100	244	13	12						13	1		3					6
	Oct	9	1,700	189	8	1						1					1			7
	Nov	11	4,600	418	2	4	4	1				6				2	1			2
	Dec	20	8,800	440	5	4	11					5			1	3	3	1		5
2002	Jan	14	4,000	286	6	6	2					2				1				7
	Feb	16	5,400	338	7	5	3	1				6					4	1		5
	Mar	22	11,200	509	7	4	8	2	1			6.5			2	15	1			7
	Apr	26	8,900	342	11	7	7	1				7			1	3				7
	May	21	14,500	690	6	4	5	5		1		2			2	2		7	1	6
	Jun	22	13,100	595	5	8	3	4	2			5			5	1				1
	Jul	18	9,400	522	4	2	8	4				5			1		7			8
	Aug	25	14,300	572	6	4	8	7				5			2	3	7	2	1	4
	Sep	25	15,200	608	6	6	8	2	3			6			1					6
	Oct	25	13,400	536	6	5	8	6				10			1		6			5
	Nov	9	7,050	783	2	1	3	2	1			1					5	1		2
	Dec	18	14,800	822	3	2	7	3	3			4			2	1	5	2		4
2003	Jan	27	22,100	819	1	6	10	7	3			3	3			5	10	1		
	Feb	32	18,300	572	6	6	12	7	1			9	3		2	6	5	2		5
	Mar	17	16,300	959	6	2	3	3	1	2		2			4	1				4
	Apr	23	23,200	1,009	6	1	6	5	3	2		6			7	5	5	1		4
	May	28	31,000	1,107	1	2	10	4		1		7			5	6	1			4
	Jun	28	29,825	1,065	3	6	6	7	3	3		13			7	5	3			2
	Jul	16	16,700	1,044	4	1	2	6	2			6			4	5				3
	Aug	25	31,300	1,252	1	4	5	9	4	2		6			1	6	6			2
	Sep	38	45,250	1,191	5	3	8	13	7	2		13			11	5	8			1
	Oct	30	33,890	1,130	4	6	6	7	3	4		9			4	9	4	1		3
	Nov	18	24,400	1,356	3	3	3	5	2	1	1	6			3		5			3
	Dec	9	6,060	673	3	2	4	3				9								
2004	Jan	17	32,700	1,924		1	6	3	2	2	3				7	1		6	1	1
	Feb	35	38,000	1,086	2	7	7	12	5	2		23			2	2	4		1	2
	Mar	53	82,760	1,562	4	6	16	12	8	6	1	28			1	3	17		1	2

Source: Prepared by author based on documents collected from the savings group office.

### III-2 Village Financial Market and the SG

The financial market of the study village was rather simple before the advent of the SG. The only formal financial institution that villagers could use was the Agricultural Promotion Bank (APB), and its local branch was located in Naxon village on national highway no. 13, roughly 22 km from the village. Villagers' other sources of credit were informal, including relatives and friends, traders, shopkeepers, and professional money-lenders.

The APB Naxon local branch was established in 1996 with six officials, including one head of the branch, two accountants, one cashier, and two loan officers. Table 9 summarized the savings and loan amounts of the local branch as of March 2004.

As seen in Table 9, the amount of savings reached 728.0 million kip, comprising 3.6 million kip of current accounts (0.5%), 333.9 million kip of savings accounts (45.9%), 312.3 million kip of time deposits (42.9%),<sup>21)</sup> and 78.2 million kip of APB bonds (10.7%). The amount of loans reached 1,743.6 million kip, including 999.9 million kip of crop loans (57.3%), 116.3 million kip of business loans (6.7%),<sup>22)</sup> 274.0 million kip for livestock raising (15.7%), and 322.5 million kip for farmland development (18.5%). The amount of loans far exceeded savings mobilized by the local branch. Note also that the term loans such as those for farmland development and farm equipment did not correspond with the terms of mobilized savings, because most of them were termed within one year.

APB provided crop loans through a group lending system under which farmers formed a group of 4–10 persons. Such a new system facilitated quick disbursement of loans without collateral, although the amount of loan per borrower was rather limited. Loans other than crop loans provided directly to individuals were relatively larger, but

**Table 9** Savings and Credit of APB Naxon Local Branch (1,000 kip)

Savings		Loan	
Current account	3,609	Crop loan	999,876
Savings account	333,885	Business loan	116,309
Time deposit	312,295	Livestock	273,960
APB bond	78,172	Handicraft	22,500
		Farmland development	322,450
		Farm machinery	8,500
Total	727,961	Total	1,743,595

Source: Interview with head of the local branch in March 2004.

21) The major periods of time deposit were three months and six months.

22) Business loans were disbursed mainly for working capital for trading activities.

they entailed cumbersome formalities, including provision of collateral.<sup>23)</sup> However, the APB Naxon local branch had non-performing loans (NPLs) totaling 58.5 million kip, 80.5% of which were crop loans. According to the head of the local branch, this situation resulted largely from natural disasters such as flooding and pest infestations, especially in the monsoon season. Therefore, it can be said that the group lending system functioned rather ineffectively for recovering loans.

In Don Neua, five groups had received APB crop loans as of March 2004. Encouraged by APB officials, 11 farmers formed the first group in January 2001. According to a farmer who joined a group created in April 2003, six farmers with 1–2 ha of paddy fields formed a group that borrowed crop loans twice a year for monsoon season and dry season rice cultivation. The loan amount was 1.5 million kip for the monsoon season (six months) and 2 million kip for the dry season (five months), with an interest rate of 12% per annum.

Table 10 summarizes the borrowing status of the sampled households in July 2003. The sources of loans were categorized into informal credit, APB, and the SG.

The table reveals that 15 households (20%) borrowed from APB (12 households through the group lending system and the rest 3 households through the individual lending system), whereas 17 households (23%) borrowed from informal sources. Note that non-farm households were excluded from APB loans and more than half of them borrowed from informal sources. In contrast, 65% of the sampled households participated in the SG, and 69% of the member households borrowed from the SG. The number of borrowers from the SG, 34, far exceeded the number of borrowers from APB and informal sources. The loan size was the largest for APB individual loans (on average 7.7 million kip), followed by SG loans (1.5 million kip), informal credit (1.4 million kip), and APB group loans (slightly less than 1 million kip).

Table 11 shows the interest rate structure of informal credit, which exhibited bi-modal distribution; that is, interest-free and a high interest rate of 10% per month were most common. Note that the APB loan interest rate was 1% (group lending) or slightly higher than 1% (individual lending) per month, whereas the SG charged 4% per month, as noted. The interest rate of the SG was much higher than that of APB, but lower than that of informal credit.

Table 12 shows the purpose of SG loans, based on information obtained from the sampled households. (Figures in Table 8 were based on the records of the SG committee.)

23) According to a woman in the study village interviewed in March 2004, when she borrowed 5 million kip from APB for pig raising under an individual lending system, she had to submit three kinds of certificates (family certificate, address certificate, and collateral certificate), curriculum vitae, and six photos, in addition to paying a 120,000 kip processing fee. After submitting all the necessary documents, she waited roughly two months until the disbursement of the loan.

Table 10 Finance for Sampled Households

Informal Credit				APB				Savings Group								
Land Ownership (ha)	No. of HHs	No. of Borrower HHs	% of Total HHs	Average Amount of Borrowing (1,000 kip)	Group Lending	Individual Lending	Total	% of Total HHs	Average Amount of Borrowing per HH (1,000 kip)		HHs with Members	% of Total HHs	No. of Members	Borrower HHs	% of Total HHs	Average Amount of Borrowing (1,000 kip)
					Group Lending	Individual Lending	Total	% of Total HHs	Group Lending	Individual Lending						
Non-farm HHs	7	4	57.1	719	0	0	0	0.0	–	–	4	57.1	7	2	50.0	5,050
Farm HHs																
0–0.99	23	6	26.1	1,958	6	1	7	30.4	1,023	6,000	15	65.2	23	12	80.0	596
1.00–1.99	24	4	16.7	519	3	1	4	16.7	633	10,000	15	62.5	27	11	73.3	1,659
2.00–2.99	8	1	12.5	250	0	1	1	12.5	–	7,000	6	75.0	9	3	50.0	1,100
3.00–3.99	6	2	33.3	3,000	1	0	1	16.7	1,200	–	3	50.0	10	1	33.3	400
4.00–	6	0	0.0	–	2	0	2	33.3	1,350	–	5	83.3	9	4	80.0	1,125
Unknown	1	0	0.0	–	0	0	0	0.0	–	–	1	100.0	1	1	100.0	300
Total	75	17	22.7	1,350	12	3	15	20.0	995	7,670	49	65.3	86	34	69.4	1,479

Source: Survey by author in 2003.



**Table 11** Interest Rates in Informal Credit

Loan Size (10,000 kip)	No. of Transactions	Monthly Interest Rate			
		0%	4%	5%	10%
<50	6	4		1	2
<100	6	1	1		3
<500	3	3			
500–	2	1	1		
Total	17	9	2	1	5

Source: Survey by author in 2003.

**Table 12** Borrowing Purposes from the Savings Group for Sampled Households

Loan Size (1,000 kip)	No. of Transactions	Purpose								
		Farming	Livestock	Trade	<i>Jees</i> Making	Consumption	Education	Water Supply System	Birth/ Funeral	Unknown
<500	8	2	0	0	1	3	1	0	0	1
<1,000	8	4	0	0	3	0	0	0	1	0
<5,000	15	1	5	2	2	1	1	0	1	2
5,000–	3	0	0	1	0	0	1	1	0	0
Total	34	7	5	3	6	4	3	1	2	3
%	100.0	20.6	14.7	8.8	17.6	11.8	8.8	2.9	5.9	8.8

Source: Survey by author in 2003.

The result was close to that of Table 8, but the household survey additionally revealed a positive correlation between larger loan amounts and production purposes, especially pig raising. The strong demand for loan in the study village was basically for various production purposes such as rice cultivation, livestock rearing, *jees* brewing, and trade.

According to several village informants, a major impact of the SG was the eradication of standing crop (paddy) sales, which were previously widespread. The custom was that if farmers sold at the time of transplantation (about four months before harvesting), buyers offered only half the expected price at harvest, and if they sold two months after transplanting, they received only 60–70% of the expected price. It was reported that the major buyers were either villagers with a large amount of regular support from abroad (largely the USA) or village-level traders. The effective rate of interest involved in these transactions was estimated as high as 20–25% per month.

Study results thus suggest that although the SG loan interest rate was much higher than APB's, the SG provided villagers a much easier source of credit with reasonable

terms and conditions, and thereby contributed to production activities and poverty eradication.<sup>24)</sup> Most importantly, the SG, unlike major microfinance institutions such as the Grameen Bank in Bangladesh, mobilized villager savings and extended them to villagers who needed loans, filling local needs while generating interest income, and thus serving as an efficient intermediary between villagers with funds-excess and funds-deficit.

#### IV The Excess Funds Problem

Table 7 reported information on “carry-over cash” in the hands of the SG committee. Carry-over cash was almost nil (below 1–2% of total funds) until the end of 2003. The demand for credit in the village was so strong that nearly all the funds (including the reserved funds and welfare funds) were extended as loans. However, the carry-over cash began increasing in 2004, when more than 10% of total funds remained after extending loans. Note that the SG opened an APB savings account in January 2001 but did not deposit the surplus money at APB. Instead, they divided the money among the five committee members and retained it in each household. The committee members report that only a very small amount of money was deposited in the bank account, primarily because the APB local branch was too far from the village.

If the excess funds become too large, the profit and member dividend decrease. The major reason for villagers depositing money in the SG was the high dividend rate of slightly less than 2.8% per month.

The excess funds reached an intolerable level in 2005. In June 2005, for instance, of the 546.0 million kip total funds, 177.6 million kip (32.5%) remained as surplus. In this situation, even if all loans were extended at the interest rate of 4% per month, the rate of dividend becomes less than 1.9% per month, far lower than the former rate of 2.8%.<sup>25)</sup>

The SG committee responded to the new situation as follows. First, they decided to reduce the monthly lending interest rate from 4% to 3%, by which they intended to increase the demand for credit while discouraging members from saving. Second, to increase the demand for credit they decided that male members were also allowed to borrow from the SG. Third, they tried to invest the surplus money in pig raising as a venture of the SG itself; however, because pork prices declined, they soon stopped after incurring a loss. Finally, they decided to extend loans to non-members, especially per-

24) The other contribution of the SG was that its welfare fund gave financial assistance to villagers for funerals and for travel expenses for selected students.

25) Because bank savings interest rate was lowered to 5% per annum in 2005 (Fig. 1), even the SG decreased the dividend rate to 1.9% per month which was still much higher than the bank rate.

sons living outside the village.

Soon after they implemented the final measure with large loan amounts, a serious problem arose. Many of the outside borrowers did not repay the principal, although they continued to pay monthly interest. According to the information I obtained when visiting the village in September 2008, a total 96 million kip of loans to 16 outside borrowers had become NPLs. At that time, the total loans extended by the SG was slightly less than 700 million kip (Table 7), with roughly 15% NPLs. Because the committee members did not provide me with the detailed record of the SG, Table 7 lacks data from September 2005 to June 2007. When I discussed this issue with the head of the village (one of the SG consultants), he disclosed that even he did not know about the committee's 2005 decision to extend credit to outside borrowers and became aware of it only after it developed into a serious problem.

In February 2012 when I visited the village again, the situation had become much worse, although the details of events between the two periods were unknown. At that time, the total amount of NPLs reached approximately 860 million kip, of which nine members accounted for 60 million and five outside borrowers for the remaining 800 million. The committee members stated that the problem of 60 million kip for nine members was relatively minor because the loans had only recently become NPLs when they failed to repay within six months from disbursement, although some of the members had intentionally failed to repay. However, they found the problem of 800 million for five outsiders very serious because it had occurred in 2005 and continued through 2012. Worse yet, the five outside borrowers had stopped paying even monthly interest during the year prior to February 2012.<sup>26)</sup>

The committee members reported that the total funds in February 2012 were 1,289 million kip, with NPLs at 66.7%! If accurate, the financial situation posed a critical problem for the SG. Since 2009, the committee members had been gathering two to three times a month to discuss this issue.

The committee also decided to reduce the lending interest rate further to 2% per month (from the former 3%) since the beginning of 2012. At the time of the survey in February 2012, the total number of members was 847 (with 444 females), which exceeded

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26) The author could not determine how the 96 million kip NPLs in 2008 became 800 million kip in 2012. The NPL details in February 2012 were as follows. Of the five outside borrowers, two borrowers (one teacher with 17 million kip and one farmer with 91 million kip) had promised to complete repayment within two months, as expected by the committee, with the help of the *khet*-level SG. The farmer would repay the loan by selling his farmland. (The prevailing land price in the area was 52 million kip per *rai* [=0.167 ha].) Of the remaining three borrowers, two were farmers with a total of 400 million kip, and one was an owner of a construction company with 300 million kip. There was no clear repayment solution for them at that time.

810, the total population of the village, because some emigrants from the village remained as members. It was reported that of the total 160 households, all except 3 “poor” households participated in the SG. After the lending interest rate reduction, the members of 34 households (of 157 households) stopped providing monthly savings and also tried to withdraw their savings.

How had CODI (WECP)<sup>27)</sup> and LWU, both of which were responsible for supervising the SGs, reacted to such a serious situation in the study village? My February 2012 interview survey at the LWU Pakngum District Office found that they became aware of the problem in Don Neua only in 2010. They provided no clear plan of how to solve the problem.

According to the LWU Pakngum District Office, the excess funds problem in the district was as follows. Only one SG other than Don Neua, extended loans to outside borrowers, and the other village had so far had no serious problem like Don Neua’s. The excess funds problem occurred in several other villages as well (among the total 53 SGs in the district), but all the other villages, except for these two, attempted to solve the problem through an official system, that is, extending loans to other SGs through coordination of the *khet*-level SG. However, the LWU Pakngum District Office stated that although this system began in 2005, very few SGs had extended loans to other SGs. Only three *khet* of the six in the district had experienced such transactions.

Our interview survey at the office of FIAM in 2007 found that it had introduced a system of transferring excess funds between SGs. But it was found that the system neither ensured sufficient profits to SGs which provide excess funds nor did it provide funds at a low lending interest rate to SGs with funds-deficit, because the system took a high margin in the intermediaries between two SGs.<sup>28)29)</sup> It seems that this institutional deficiency was the major reason for these systems’ unpopularity.

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27) Women’s Empowerment in Communities Project (WECP) succeeded CODI in monitoring the SG.

28) According to a FIAM Thai officer (interviewed on August 31, 2007), FIAM established “Lao league of village banks” in July 2004 with 17 committee members and at the time of the interview 65 SGs were the member of the league. The system is that SGs with excess funds can deposit to the league with an interest rate of 1.5% per month. On the other hand, SGs that want to borrow from the league should pay 3% per month interest. The profits are distributed to shareholders (25%), bonus for staff (10%), bonus for the committee (10%), “Education fund” (10%), “welfare” for the committee/staff (10%), reserved fund (27%), etc.

29) On the other hand, according to an officer of CODI (interviewed on September 3, 2007), CODI organized a bank at the district-level LWU and provided a fund of US\$5,000 to each during 2002–05 through the headquarter of the LWU. The margin of 0.3% per month interest is taken by the headquarter whereas 1.2% margin is taken by the district LWU. Finally, the village SG takes a margin of 0.5% so finally the interest rate paid by SG members becomes 2.0% per month. In this case, the high intermediary margins seem to be a problem.

In sum, results demonstrate that Don Neua might be an exceptional case where the excess funds problem developed into a very serious situation; however, the problem in Don Neua became so serious because the overall auditing system for the SGs was very weak and lacked a risk mitigation mechanism. The core problem may lie in the failure to establish an appropriate system of transferring funds from SGs with funds-excess to those with funds-deficit or to broader, less risky external financial markets. At the time of my February 2012 survey, six months had passed since CODI (WECP) withdrew from the SG program. LWU could not establish a new monitoring system for the SGs.

## V Concluding Remarks

Some of the SGs organized in Laos since 1997 have experienced great success in that they mobilized considerable savings in rural areas in a short period and extended the savings to members in need as loans with reasonable terms and conditions. Such SGs contributed to the villages' economic development and alleviated poverty by eradicating exploitative informal credit such as that on standing crop sales. The most important point is that the SGs, unlike the major microfinance institutions such as the Grameen Bank in Bangladesh, mobilized rural villagers' savings and extended them to villagers who needed loans, and thereby have served as an *efficient* intermediary between villagers with funds excess and those with funds deficit. Efficient, since they successfully reduced transaction costs for transferring funds between villagers within the same village boundary. The SG in the study village had been one of the greatest successful cases.

However, that very success, because of its rapidity, created a trap. Because of the high rate of return for savings (at slightly less than 2.8% per month in Don Neua), villagers tried to make the largest possible deposits by increasing the number of members from the same family and by increasing their amount of monthly savings far beyond the minimum obligation. Finally, the accumulated savings exceeded the demand for credit, and a substantial amount of carry-over cash remained in the committee members' hands.

The basic problem lied in the system that the activity of the SG was confined to their village. There was no demand for credit any more in the village. The committee members could not determine a solution for the issue, given the members' high expectations for maintaining high rate of dividend. They even began a pig-raising investment project to obtain profits, but that project failed because the price of pork fell. They made their final decision to extend loans to entrepreneurs outside the village without consulting even the local SG consultants. And they finally faced a serious problem of non-performing loans.

The success of the SG in the repayment of loans can be attributed to a kind of com-

munity function at the village level. As the villagers remain in the village or have close day-to-day relationships, even if they migrate to other areas, they feel obligated to avoid outright non-repayment of loans extended by their SG. However, this control does not affect outsiders, as demonstrated by the Don Neua SG's serious problem. The committee members had too optimistic predictions of outside borrower behavior.

However, if SGs continue to confine their activity to their village, the falling rate of dividend will make villagers to stop savings after a certain point. The most important task for the policy-makers in general, or the SG supervisory organizations (such as FIAM, CODI, and LWU) in particular, is to establish an efficient and reasonable system for transferring funds between SGs, and a system for transferring funds to external financial markets after the SG funds become excessive as a whole.

To date, Laos has experienced apparent failure in these core system elements. The absence of these elements is the root cause of the Don Neua SG's failure. The experiences of other countries, especially Japan, suggest a solution to the problem of excess funds, which several successful village-level SGs in Laos now face: treating the situation as an opportunity to form a broader, integrated financial market in the country, involving the vast rural areas.

Accepted: December 22, 2014

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